

Message Text

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E.O. 11652: GDS

TAGS: EFIN, EAID

SUBJECT: ZAMBIAN ELIGIBILITY FOR IDA CREDITS

REF: LUSAKA 2026

1. LATEST WORLD BANK UPDATE OF PER CAPITA INCOME DATA FOR DEVELOPING COUNTRIES SHOWS ZAMBIA WITH 1976 GNP PER CAPITA OF DOLS. 440 -- WELL BELOW THE 1976 IDA ELIGIBILITY BENCHMARK OF DOLS. 550. BUT PER CAPITA INCOME IS NOT THE ONLY CRITERION FOR IDA ELIGIBILITY.

2. AT WORLD BANK EXECUTIVE DIRECTORS MEETING EARLY THIS WEEK TO CONSIDER IDA ELIGIBILITY AND ALLOCATIONS CRITERIA THE US SUPPORTED THE VIEW THAT APPRAISALS OF COUNTRIES' LACK OF CREDITWORTHINESS FOR CONVENTIONAL LOANS, AND CHOICES BETWEEN USE OF WORLD BANK LOANS OR IDA CREDITS, CONFIDENTIAL

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BE BASED UPON JUDGMENTS OF LONG-TERM STRENGTHS AND WEAKNESSES OF THE COUNTRIES' ECONOMIES AND THEIR CAPACITY TO SERVICE EXTERNAL DEBT OVER A LONG PERIOD OF TIME. WE ADVOCATED INCLUSION OF LANGUAGE IN THE IDA ALLOCATIONS MEMORANDUM THAT "RECENT CHANGES IN THE WORLD ECONOMY, ESPECIALLY CHANGES IN COMMODITY PRICES, HAVE SERIOUSLY AFFECTED BOTH THE DEBT SERVICE CAPACITY AND THE RESERVES

POSITION OF MANY COUNTRIES AND MAKE IT IMPERATIVE THAT IDA GIVE GREATER WEIGHT UNDER THIS CRITERION TO COUNTRIES WHOSE LONG-TERM DEVELOPMENT PROSPECTS HAVE BEEN SERIOUSLY HAMPERED BY THESE EVENTS."

3. IN DISCUSSIONS WITH ZAMBIAN FINANCE MINISTRY OFFICIALS YOU MAY WISH TO DRAW ON PARAS 1 AND 2. IN ADDITION YOU MAY NOTE THAT THE FOLLOWING UNDERLYING FACTORS WERE TAKEN INTO ACCOUNT IN THE BANK'S DECISION TO MAKE INDONESIA, THE PHILIPPINES AND THAILAND REELIGIBLE FOR IDA: (1) INCREASED BALANCE OF PAYMENTS DEFICITS FOLLOWING INCREASE IN OIL PRICES, DECLINE IN COMMODITY PRICES FROM 1973-74 PEAKS, AND RECESSION IN INDUSTRIALIZED COUNTRIES; (2) COUNTRIES' ADJUSTMENTS TO THIS SITUATION BY INCREASED BORROWING FROM A VARIETY OF SOURCES ON DIFFERENT TERMS AND BY REDUCING INVESTMENT AND GROWTH; AND (3) INCREASED DEBT SERVICE RATIOS AND REDUCED GROWTH PERFORMANCE WHICH FURTHER AFFECTED THEIR CREDITWORTHINESS.

4. FOR COUNTRIES SUCH AS INDONESIA AND EGYPT AND OTHERS WHICH HAVE SOME CAPACITY TO BORROW ON NON-CONCESSIONARY TERMS, THE APPROACH HAS BEEN TO BLEND IDA AND BANK LENDING. YOU SHOULD STRESS THAT IN THE EVENT ZAMBIA SHOULD BECOME ELIGIBLE FOR IDA CREDITS IT WOULD NO DOUBT BE TREATED IN A SIMILAR FASHION (I.E. A MIX OF IDA AND BANK
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LOANS), WITH THE EMPHASIS PROBABLY FALLING ON BANK LOANS.

5. YOU MAY SAY THAT THE US AGREES THAT ZAMBIA'S FINANCIAL POSITION HAS DETERIORATED. HOWEVER, IDA ELIGIBILITY IS PRIMARILY A QUESTION FOR DETERMINATION BY WORLD BANK MANAGEMENT IN ACCORDANCE WITH ESTABLISHED CRITERIA. THE IDA ALLOCATIONS CRITERIA PAPER APPROVED BY THE BANK'S EXECUTIVE DIRECTORS JULY 19 DOES NOT REPEAT NOT LIST ZAMBIA AMONG THE QUOTE COUNTRIES PRESENTLY REGARDED ELIGIBLE FOR IDA ASSISTANCE UNQUOTE. THIS LIST, HOWEVER, REPRESENTS ONLY BANK MANAGEMENT'S CURRENT ESTIMATE OF WHICH COUNTRIES WILL BE ELIGIBLE DURING THE NEXT THREE YEARS, AND THE LIST CAN BE EXPECTED TO CHANGE. IT WAS MADE CLEAR DURING THE JULY 19 MEETING THAT BANK MANAGEMENT REQUIRES FLEXIBILITY IN DETERMINING IDA ELIGIBILITY. THUS WE SUGGEST ZAMBIA PRESENT ITS CASE FOR IDA ELIGIBILITY DIRECTLY TO BANK MANAGEMENT THROUGH ITS EXECUTIVE DIRECTOR, DRAWING ON ITS CURRENT PER CAPITA GNP LEVEL AND THE IMPACT OF LOW COPPER PRICES ON ITS LONG TERM DEVELOPMENT PROSPECTS. WE WOULD EXPECT ANY REQUEST TO BE EXAMINED BY BANK MANAGEMENT CAREFULLY AND OBJECTIVELY. VANCE

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